

PUBLIC DISCLOSURE

September 7, 2010

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

**CapitalSource Bank
Certificate Number: 58878**

**633 West Fifth Street
Los Angeles, California 90071**

**Federal Deposit Insurance Corporation
25 Jessie Street at Ecker Square, Suite 2300
San Francisco, California 94105**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

The Community Reinvestment Act (CRA) requires each federal financial supervisory agency to use its authority when examining financial institutions subject to its supervision, to assess the institution's record of meeting the credit needs of its entire community, including low- and moderate-income (LMI) neighborhoods, consistent with safe and sound operation of the institution. Upon conclusion of such examination, the agency must prepare a written evaluation of the institution's record of meeting the credit needs of its community.

*This document is an evaluation of the CRA performance of **CapitalSource Bank (CSB)** prepared by the **Federal Deposit Insurance Corporation (FDIC)**, the institution's supervisory agency, as of **September 7, 2010**. The agency evaluates performance in assessment area(s) (AAs), as they are delineated by the institution, rather than individual branches. This AA evaluation may include the visits to some, but not necessarily all of the institution's branches. The agency rates the CRA performance of an institution consistent with the provisions set forth in Appendix A to 12 CFR Part 345.*

This evaluation reflects the bank's CRA performance since the inception of the bank on July 25, 2008. This evaluation was conducted at the institution's Administrative Offices in Brea, California. The evaluation was based upon records and reports provided by the institution, publicly available loan and financial information, demographic information, and information gathered as part of the examination process.

INSTITUTION RATING

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

CSB's performance was evaluated using the community development (CD) test. The CD test considers an institution's CD loans, qualified investments, and/or CD services. The institution's performance in each of these areas is summarized below.

Community Development Lending

The institution has a high level of CD loans and has an excellent record of performance in meeting the credit needs of its AAs. During the review period, the bank extended or purchased 267 CD loans for \$99.3 million, which constituted 1.7 percent of the bank's total assets and 2.8 percent of total loans as of June 30, 2010. CSB occasionally uses innovative or complex community development loans, and exhibits excellent responsiveness to credit and community economic development needs within its AA.

Although not in the bank's AAs, CSB has an additional 27 CD loans totaling \$39.4 million. This further exhibits the bank's commitment to CRA.

Qualified Investments

The institution has a high level of qualified investments and donations. CSB exhibits excellent responsiveness to credit and community economic development needs, and occasionally uses innovative or complex qualified investments. During the evaluation period, the bank made 28 qualified investments for \$43.0 million and 255 qualified donations for \$528,000. As a means of demonstrating its continued and long-term commitment to its AAs, the bank maintains its investments in qualified mortgage backed securities (MBS) and investments in CD financial institutions (CDFIs).

Community Development Services

The institution has provided a high level of CD services, and exhibits excellent responsiveness to credit and community economic development needs within its AA. Bank officers, managers, and employees serve on boards of, and offer technical assistance to, organizations committed to CD initiatives that provide services for LMI individuals and benefit LMI geographies within the bank's AAs. The bank contributed a total of 3,572 hours in its combined AAs.

Fair Lending or Other Illegal Credit Practices Review

No evidence of discriminatory or other illegal credit practices inconsistent with helping to meet community credit needs was identified.

DESCRIPTION OF INSTITUTION

CSB was established in July 2008, as an Industrial Loan Company (ILC), and is headquartered in Los Angeles, California. An ILC operates like a bank, but is restricted from offering transaction deposit accounts.

On June 17, 2008, the bank received a wholesale bank designation for CRA purposes. As a wholesale bank, CSB was evaluated under the CD test, which considers a bank's CD loans, qualified investments, or CD service. CSB developed a 3-year CRA Plan to outline goals for meeting its obligations as a wholesale designated bank. The plan called for \$43.0 million in qualified investments in 3 years.

In addition to its 10 branch locations in Los Angeles County, the bank has 5 branch offices in Orange County, and has 1 branch each in San Bernardino, Ventura, Fresno, Kern, Tulare, Santa Barbara, and Kings Counties in California. The Santa Barbara branch was closed in July 2010. As of June 30, 2010, the institution reported total assets of \$5.8 billion, net loans of \$3.4 billion, total deposits of \$4.6 billion, total investments/securities of \$1.8 billion, and equity capital of \$876.2 million.

Table 1 below shows the composition of the bank's loan portfolio as of June 30, 2010.

Table 1 - Loan Portfolio	Dollar Amount (000s)	Percent of Total Loans (%)
Construction and Land Development	229,136	6.4
Secured by Farmland	0	0.0
Revolving Open-end 1 to 4 Family Residential	0	0.0
Closed-end 1 to 4 Family Residential First Lien	0	0.0
Closed-end 1 to 4 Family Residential Junior Lien	0	0.0
Multifamily Residential	184,207	5.2
Commercial Real Estate	1,245,975	34.9
Total Real Estate Secured	1,659,318	
Loans to Depository Institutions/Acceptances of Other Banks	0	0.0
Loans to Finance Agricultural Production	0	0.0
Commercial and Industrial loans	1,431,930	40.1
Consumer Credit Cards	0	0.0
Other Consumer Revolving Loans	0	0.0
Closed-end Consumer Loans	0	0.0
Loan to Foreign Governments/Official Institutions	0	0.0
Other Loans	464,626	13.0
Lease Financing Receivables	13,522	0.4
Less: Any Unearned Income on Loans	0	0.0
Total Loans and Leases (before ALLL)	3,569,396	100.0

Source: 6/30/2010 Call Report

The bank has not engaged in small business, small farm, or consumer lending activities. The bank specializes in providing products and services to large commercial and industrial borrowers with the average loan size of \$7 to \$10 million.

No legal impediments or financial constraints are present to preclude the bank from reasonably meeting the credit needs of its AAs. Financial data does not reveal any trends that would adversely affect the bank's ability to extend credit within its AAs consistent with its business strategy and wholesale bank designation.

DESCRIPTION OF ASSESSMENT AREAS

CSB operates 22 branches in 6 AAs. The AAs include the Los Angeles combined AA, which encompasses the whole contiguous Counties of Los Angeles, Orange, San Bernardino and Ventura in Southern California. The five additional AAs are the whole Counties of Fresno, Kern, Tulare, Santa Barbara, and Kings in Central California.

Based on the 2000 U.S. Census data, the combined AAs contain a total of 3,516 census tracts (CTs) (239 low-, 991 moderate-, 1,102 middle-, 1,157 upper-income, and 27 with no income reported). LMI CTs account for approximately 6.8 percent and 28.2 percent, respectively, of the total number of tracts in the combined AAs. The total population for the combined AAs is 17.2 million. Details on each of the bank's individual AAs can be found within their respective individual analyses below.

Community Contacts

Two community contacts were reviewed to determine the credit needs within the bank's AAs. These contacts were used in developing the performance context and evaluating the bank's performance.

The community contacts reviewed included an economic development organization and a community reinvestment organization located within the bank's AAs. Information obtained through the community contacts identified a need for start-up small business financing and technical assistance. Affordable housing continues to be a need within the bank's AAs.

CONCLUSIONS WITH RESPECT TO PERFORMANCE

CSB has an excellent record of participating in and helping to support CD activities within its AAs. During the review period, July 25, 2008, through June 30, 2010, outstanding qualified investments totaled approximately \$43.0 million. CSB also participates in the lending and service components of the CD test. CSB extended or purchased 267 CD loans totaling \$99.3 million. These loans facilitated economic development, revitalization of LMI CTs, and affordable housing. With respect to CD services, a significant number of bank officers and managers actively lend their expertise to an extensive list of CD organizations.

Description of the Institution's Operations

CSB's general CRA strategy is to meet the needs of its AAs by seeking out qualified CD investments, including equity investments, grants, and donations. CSB also purchased or extended loans for economic development and affordable multi-family housing and provided CD services. The bank specializes in providing products and services to large commercial and industrial borrowers with the average loan size of \$7 to \$10 million.

Scope of Evaluation

The evaluation was conducted on-site at the bank's administrative offices in Brea, California using wholesale bank evaluation procedures, and assessed CSB's performance under the CD test within its AAs. A review of the bank's participation in qualified investments, CD lending, and CD services included all activity from the bank's inception on July 25, 2008, to June 30, 2010. The evaluation relied upon records and reports provided by the institution, publicly available loan and financial information, demographic data, and information gathered as part of the evaluation process, including a review of community contacts. A review of FDIC records, as well as the bank's CRA public file, did not reveal any complaints relating to the bank's CRA performance.

Examiners gave the greatest weight to the bank's CD activities in the Los Angeles AA. The bank's operations are centered in the Los Angeles AA, with approximately 77 percent of the bank's branches located in this AA. In addition, as of June 30, 2009, 76 percent of the bank's deposits are in the Los Angeles AA.

Qualified Investments

CSB was evaluated on its record of meeting the needs of its AAs through the use of qualified investments. During the review period, the bank made 28 qualified investments for \$43.0 million. The dollar amount of the qualified investments represents 0.7 percent of total assets, 2.4 percent of total investments, and 4.9 percent of equity capital. Qualified investments are defined in Section 345.12(s) of the FDIC's Rules and Regulations, as any lawful investment, deposit, membership share, or grant that has as its primary purpose CD. Qualified investments may serve the AA or a broader statewide or regional area that includes the AAs. An institution's investment activities are evaluated pursuant to the following criteria:

- (1) the level of qualified investments, including the degree to which the qualified investments

- are not routinely provided by private investors;
- (2) the innovativeness or complexity of qualified investments; and
- (3) the responsiveness of qualified investments to credit and community economic development needs.

Qualified Investments

The bank has a high level of qualified investments. CSB occasionally uses innovative or complex qualified investments, and exhibits excellent responsiveness to community economic development needs. The bank's qualified investments also address the identified needs of the AAs as noted in recent community contacts reviewed. CSB made 28 qualified debt and/or equity investments totaling \$43.0 million during the review period. CSB's goal within its own business plan called for \$43.0 million of qualified investments within 3 years. The bank achieved this goal within two years of operation, which demonstrates the Board of Directors and senior management's commitment to the LMI individuals and geographies of its AAs.

Refer to the comments in the qualified investment sections for each AA area for a detailed discussion of the bank's performance and notable examples of qualified debt and equity investments.

Qualified Grants and Donations

Qualified grants and donations awarded were distributed as shown in Table 2 below.

Table 2 - Distribution of Qualified Grants and Donations				
Assessment Area	Number	%	Dollar Amount	%
Los Angeles	227	89.0	498,254	94.3
Fresno	6	2.3	6,520	1.2
Kern	4	1.6	4,000	0.8
Tulare	5	2.0	3,106	0.6
Santa Barbara	5	2.0	6,500	1.2
Kings	6	2.3	3,350	0.6
Other – California	2	0.8	6,750	1.3
Total	255	100.0	528,480	100.0

Source: Bank Records

Refer to the comments in the Qualified Investment section of each AA for a detailed discussion of the bank's performance and notable examples of qualified grants and donations awarded by the bank.

Community Development Lending

A CD loan is a loan that has CD as its primary purpose, and that has not been reported or collected by the bank as a home mortgage, small business, small farm, or consumer loan, unless it is a multi-family dwelling. CD is defined in Section 345.12(h) of the FDIC's Rules and Regulations as affordable housing for LMI individuals; community services targeted to LMI individuals; activities that promote economic development by financing businesses or farms that

meet the size eligibility standards of the Small Business Administration's (SBA) Development Company or Small Business Investment Company (SBIC) programs or have gross annual revenues of \$1 million or less; or activities that revitalize or stabilize LMI geographies.

CSB's CD lending activities were evaluated pursuant to the following criteria:

- (1) the level of CD lending;
- (2) the innovativeness or complexity of CD loans; and
- (3) the responsiveness of CD loans to credit and community economic development needs.

Although not part of CSB's CRA plan, CSB has a high level of CD loans within its AAs. The bank exhibits excellent responsiveness to credit and community economic development needs within its AAs. During the review period, the bank extended 267 CD loans totaling \$99.3 million. The CD loans originated and purchased have supported small businesses and affordable housing, which addresses the needs of the AAs as indicated in the community contacts reviewed. CSB's CD lending by AA during the review period is summarized in Table 3 below.

Table 3 - Distribution of Community Development Loans in the Combined Assessment Areas				
Assessment Area	Number	%	Dollar Amount (000)	%
Los Angeles	232	86.9	84,337	84.9
Fresno	3	1.1	830	0.8
Kern	1	0.4	294	0.3
Tulare	0	0.0	0	0.0
Santa Barbara	0	0.0	0	0.0
Kings	0	0.0	0	0.0
Other – California	31	11.6	13,864	14.0
Total	267	100	99,325	100

Source: Bank Records

The distribution of qualified CD loans originated or purchased by the bank within its combined AAs by CD qualification is reflected in Table 4 below.

Table 4 – Distribution of Community Development Loans in Combined Assessment Areas by Community Development Qualification		
Community Development Qualification	Number	Dollar Amount (000)
Affordable Housing	110	76,541
Economic Development	18	10,373
Revitalization of LMI Geographies	139	12,411
Total	267	99,325

Source: Bank records

Community Development Services

CSB is a leader in providing CD services within its AAs. CSB's CD services were evaluated pursuant to the following criteria:

- (1) the level of CD services;
- (2) the innovativeness or complexity of CD services; and
- (3) the responsiveness of CD services to credit and community economic development needs.

The institution's officers (15), managers (10), and non-management employees (43) have provided a total of 3,572 hours of financial expertise and technical assistance. The hours were devoted to organizations that are committed to providing services for LMI individuals and geographies within the bank's AAs, as shown in Table 5 below.

Table 5 – Distribution of Community Development Services in Combined Assessment Areas by Officers/Managers		
Bank personnel	Number of Employees	Total Hours
Officers	15	1,607
Managers	10	1,392
Non-managers	43	573
Total	68	3,572

Source: Bank records

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE LOS ANGELES ASSESSMENT AREA

The bank's primary AA is comprised of the entire contiguous Counties of Los Angeles, Orange, San Bernardino, and Ventura. The AA meets the technical requirements of the regulation and does not arbitrarily exclude LMI CTs. CSB operates 17 branches and 2 administrative offices in its Los Angeles AA. Four branches are located in moderate-income CTs, five branches in middle-income CTs, and eight branches in upper-income CTs.

Demographic Data

Based on 2000 U. S. Census data, the Los Angeles AA contains a total of 3,030 CTs (221 low-, 846 moderate-, 937 middle-, 1,006 upper-income, and 20 with no income). LMI CTs accounted for approximately 7.3 percent and 27.9 percent, respectively, of the total number of tracts in the AA. The total population for the AA is 14,828,258. The Department of Housing and Urban Development's (HUD) adjusted median family income (MFI) for the Los Angeles AA in 2010 is \$74,700.

Economic Data

Los Angeles County (LAC)

According to Moody's Analytics, Los Angeles County (LAC) is emerging from its deep recession, strengthened by rising international trade, improvements in the entertainment industry, and increases in business services such as advertising. Job losses and the rise in the unemployment rate have both subsided in recent months, and a recent rise in the labor force

indicates improving optimism among job seekers. The job market, however, remains weighed down by lingering weakness in construction and local government. The housing market has begun to cool since the surge of sales and prices in late 2009; although, indicators are above the lows reached at the depth of the recession. Multiple links to the recovering U.S. economy through trade and consumption should support the local economy in the coming year.

Revival of trade flows through the area, imports in particular, will fuel the area's recovery in the near term. Inbound container traffic through local ports lagged outbound container traffic in the second half of 2009, but improved in early 2010. Expectations of increased imports, and a stronger holiday shopping season in 2010 as a result of the improving U.S. economy, bode well for rising inbound container traffic. Imported containers make up nearly two-thirds of all loaded containers handled at the ports.

Orange County (OC)

According to Moody's Analytics, the pace of Orange County's (OC's) recovery is slowing. Job growth, which outpaced that of the rest of California in the first half of 2010, is now slowing. Technology and OC's scaled-down financial services are among the few industries still adding workers. Housing markets in OC are beginning to weaken. Sales have fallen in recent months following the expiration of the Federal Housing Tax Credit.

OC's hard-hit financial industry will slowly begin to recover, although at rates of growth well below the real estate-related financial boom that occurred prior to the recession. This slow recovery of financial services companies will temper the recovery pace of OC's office markets. Finance employment in the metro division plunged 35 percent from its 2005 peak by the end of 2009 as subprime and other mortgage lenders went out of business.

San Bernardino County (SBC)

According to Moody's Analytics, San Bernardino County's (SBC's) recovery is stalling. Manufacturing, which helped to move SBC into recovery, has been weighed down by slowing orders, idling output, and employment of durable goods manufacturers. Recovering international trade, particularly imports, provides some economic lift, reviving utilization and employment in SBC's distribution centers and reducing industrial vacancy rates.

SBC's housing industries are also slowing. The temporary lift provided by federal and state housing supports expired, resulting in falling prices and sales.

Ventura County (VC)

According to Moody's Analytics, the Ventura County (VC) economy has entered recovery, despite recent setbacks. Following three straight months of gains, employment fell in June and July 2010, causing payrolls to sink to a new low for this cycle. Job cuts in government accounted for virtually all losses, as census layoffs added to those from state and local budget cuts.

Existing-home sales dropped sharply in July following the expiration of the Federal Housing Tax Credit; however, permits have stabilized. Prices have recovered from depressed levels as well.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE LOS ANGELES ASSESSMENT AREA

CSB has a high level of CD loans, CD services, and qualified investments that are not routinely provided by private investors within its Los Angeles AA. During the review period, qualified investments totaled \$39.3 million. In addition, the bank extended 232 CD loans totaling \$84.3 million. With respect to CD services, many of the bank's officers and employees actively lend their financial expertise to numerous CD organizations.

Community Development Investments

CSB was evaluated on its record of meeting the needs of the Los Angeles AA through the use of qualified investments. During the review period, the bank made or maintained investments and donations for \$39.8 million as reflected in Table 6 below.

Table 6 - Distribution of Qualified Investments in the Los Angeles Assessment Area	
Category of Investment	Dollar Amount (000)
Debt/Equity Investment	39,303
Grants/Donations	498
Total	39,801

Source: Bank records

Qualified Investments

The bank has a high level of qualified debt and/or equity investments within the Los Angeles AA, which demonstrates management's long-term commitment to the LMI individuals and geographies within the area. CSB occasionally uses innovative or complex qualified investments, and exhibits an excellent responsiveness to community economic development needs. The bank's qualified investments address identified needs of the AA as noted in recent community contacts reviewed. Qualified debt/equity investments within the AA are shown in Table 7 on the next page.

Table 7 - Distribution of Qualified Debt/Equity Investments in the Los Angeles Assessment Area		
Description	Number	Dollar Amount (000)

Financial Intermediaries	16	16,850
Mortgage-Backed Securities targeted to low- and moderate-income individuals and/or areas	3	21,953
Affordable Housing Rehabilitation and Construction	5	500
Total	24	39,303

Source: Bank records

Notable qualified equity and debt investments are:

Financial Intermediaries

During the review period, CSB made 16 separate investments totaling \$16.9 million in 3 CDFIs. These institutions primarily lend, or facilitate lending, in LMI areas and/or to LMI individuals in order to promote CD. One notable program provides commercial loans to small businesses, focusing on those owned by minorities and women in urban communities within the AA.

Mortgage Backed Securities

CSB purchased 3 pools of Fannie Mae (FNMA) issued MBSs for an aggregate book value of approximately \$22.0 million. The MBSs are comprised of single-family residential mortgage loans made to borrowers with incomes of 80 percent or less of the area's MFI. FNMA pools loans from qualified originators and converts them into single-class MBSs. The 3 investments cover all 6 AAs, with 91.4 percent of the total dollar amount being contained in the Los Angeles AA.

Affordable Housing Rehabilitation and Construction

CSB made 5 investments in 2 CDFIs totaling \$500,000. These institutions primarily lend to underserved communities and first-time homebuyers within the Los Angeles AA. One notable program strengthens communities through the development and maintenance of quality affordable housing, creation and preservation of affordable homeownership opportunities, support of local leaders, providing financial education, and increasing the financial independence of families and people in need.

Qualified Grants and Donations

During the review period, the bank awarded 227 qualified grants and donations in the amount of \$498,254, within the Los Angeles AA. The grants and donations awarded were distributed as shown in Table 8 below.

Table 8 - Distribution of Qualified Grants in the Los Angeles Assessment Area	
CD Qualification	Dollar Amount (000)
Affordable Housing	165
Economic Development	31
Low- and Moderate-Income Services	302
Total	498

Source: Bank Records

Examples of notable donations are:

- Six donations totaling \$17,400, were made to a non-profit neighborhood housing service. The non-profit works to strengthen communities through the development and maintenance of quality affordable housing, creation and preservation of affordable homeownership opportunities, providing financial education, and increasing the financial independence of families and people in need.
- Two donations were made, totaling \$6,000, to an organization that partners with local agencies and food pantries to provide meals for hungry children and families.
- Three donations were made to a non-profit shelter that provides for the needs of the homeless through service coordination, public education, and advocacy to help end homelessness.

Community Development Lending

CSB exhibits excellent responsiveness to the credit and community economic development needs of its Los Angeles AA. The bank has an excellent record of meeting the AA's needs by extending loans to facilitate affordable multi-family housing, the revitalization of LMI geographies, and economic development within the AA. CSB's CD lending during the review period is summarized in Table 9 on the next page.

Table 9 – Distribution of Community Development Loans in the Los Angeles Assessment Area by Community Development Qualification		
Community Development Qualification	Number	Dollar Amount (000)
Affordable Housing	83	61,645
Economic Development	18	10,373
Revitalization of Low-and	131	12,319

Moderate-Income Geographies		
Total	232	84,337

Source: Bank records

Notable examples of the bank's CD loans are:

- Eighty-three affordable housing loans, totaling \$61.6 million were made to provide affordable housing via multi-family units in LMI CTs located within the Los Angeles AA. The rents are well below market and are affordable to LMI individuals.
- Eighteen qualified loans, totaling \$10.4 million, were originated under the SBA's 504 Certified Development Company program within the Los Angeles AA. Loans made under this program create jobs and bring economic development to the area.
- CSB purchased 5,000 shares of stock in a Community Development Corporation (CDC), which represents 9 percent ownership. This CDC provides economic opportunities within the AA by offering innovative and affordable financing to lower-income individuals and/or communities. The CRA regulation allows the bank to apply the prevailing stock ownership percentage of 9 percent to the total amount of CRA qualified loans that are originated by the CDC, annually. As of June 30, 2010, the CDC had originated \$136.9 million in qualified CD loans, making CSB's ownership \$12.3 million in CRA qualified loans.

Community Development Services

CSB provides a high level of CD services within the Los Angeles AA. Bank officers and managers have provided a total of 3,387 hours of financial expertise and technical assistance. The employees assisted organizations that are committed to CD initiatives that benefit LMI individuals and geographies in the AA.

Examples of notable programs are:

- CSB has contributed 385 service hours in the Los Angeles AA to a not-for-profit, volunteer driven, organization dedicated to developing sustainable communities by teaching the economic relevance of staying in school to disadvantaged youth.
- CSB is a community partner with a local public elementary school in the Los Angeles AA. During the review period, the bank contributed 67 community service hours to support fundraising events and attend budgeting meetings and other various school events to disadvantaged youth.
- CSB has contributed 240 service hours by serving on the board and other various finance committees of an organization that enables families and individuals to obtain quality affordable housing and become homeowners within the AA.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE FRESNO ASSESSMENT AREA

CSB operates one branch within its Fresno AA. The branch is located in a middle-income CT.

Demographic Data

Based on 2000 U.S. Census data, the Fresno AA contains a total of 158 CTs (9 low-, 47 moderate-, 53 middle-, 48 upper-income, and 1 no income reported). LMI CTs account for approximately 5.7 percent and 29.8 percent, respectively, of the total number of tracts in the AA. The total population of the AA is 799,407. The HUD adjusted MFI for the AA in 2010 is \$53,100.

Economic Data

According to Moody's Analytics, the Fresno economy is coming closer to recovery, though revised employment data shows that the downturn has yet to end. The large food-processing industry has recovered significantly since September, leading to a smaller rebound in retail hiring. However, most other industries, especially construction, are still contracting, and the unemployment rate has continued to climb steadily, to 16.9 percent in February. The labor force, which rose steadily between 2004 and the end of 2008, has been flat for the past year and a half, reflecting continued pessimism about job opportunities in the metro area.

The Fresno economy will recover more slowly than the nation as a result of the continuing weight of foreclosures. However, recent gains in the large local agricultural and food-processing industries, and a better tone to the national recovery, have resulted in upward revisions to the near-term forecast. Longer term, however, Fresno's low level of industrial diversity will continue to constrain the interest of new businesses in locating in the area. On balance, Fresno will be at best an average performer.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE FRESNO ASSESSMENT AREA

CSB's performance is consistent with the previous AA analysis. During the review period, the bank extended 3 CD loans totaling \$829,635. CSB also participates in the investment and service components of the CD test. Outstanding investments totaled \$703,494 during the review period. With respect to CD services, bank employees actively lend their financial expertise to several CD organizations.

Qualified Investments

During the review period, the bank's investments totaled \$703,494 within the Fresno AA, which demonstrates management's commitment to the LMI individuals and geographies within the AA.

Qualified Grants and Donations

CSB has awarded 6 qualified grants and donations in the amount of \$6,520 in the Fresno AA.

Community Development Lending

CSB has extended 3 CD loans for \$829,635 to facilitate both the revitalization of LMI geographies and economic development within the AA.

Community Development Services

Bank employees have provided a total of 40 hours of financial expertise and technical assistance to organizations that are committed to CD initiatives that provide services for LMI individuals and benefit LMI geographies within the bank's AA.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE KERN ASSESSMENT AREA

CSB operates one branch in its Kern AA. The branch is located in an upper-income CT.

Demographic Data

Based on 2000 U.S. Census data, the Kern AA contains a total of 140 CTs (5 low-, 40 moderate-, 45 middle-, 47 upper-income, and 3 no income reported). LMI CTs account for approximately 3.6 percent and 28.6 percent, respectively, of the total number of tracts in the AA. The total population of the AA is 661,645. The HUD adjusted MFI for the AA in 2010 is \$52,200.

Economic Data

According to Moody's Analytics, Kern County's recession is winding down, but the housing and labor markets are still deeply troubled. Although payrolls likely bottomed late in 2009, no industry has begun to add jobs in a significant way. Business/professional services have added some jobs over the past several months, but not enough to support a recovery. Although slowing, growth in education/healthcare continues to be a support. Construction remains a large weight on the labor market. To date, it has accounted for almost half the jobs lost in the metro area. The unemployment rate is rising, as the labor market has been unable to absorb job seekers. The jobless rate stood at 16.8 percent in March 2010, more than 7 percentage points above the national rate and among the highest in the nation.

The Kern County economy will remain in recession until late 2010, as the housing and labor markets slowly begin to heal. The unemployment rate is expected to peak just south of 18 percent by the third-quarter, keeping improvements in credit quality subdued for several more quarters. The high jobless rate and scant hiring will prevent the labor market from reaching its pre-recession peak until late 2013. Longer term, the high share of agricultural jobs will keep a lid on per capita income growth, making Kern County a below-average performer through the forecasted horizon.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE KERN ASSESSMENT AREA

CSB's performance is consistent with the previous AA analysis. During the review period the bank extended 1 CD loan totaling \$293,834. CSB also participates in the investment and service components of the CD test. Outstanding investments totaled \$422,598 during the review period. With respect to CD services, bank employees actively lend their financial expertise to several CD organizations.

Qualified Investments

The bank made investments totaling \$422,598 within the Kern AA, which demonstrates management's commitment to the LMI individuals and geographies within the AA.

Qualified Grants and Donations

CSB has awarded 4 qualified grants in the amount of \$4,000. All of the grants benefited LMI individuals within the AA.

Community Development Lending

CSB extended 1 loan for \$293,834 to facilitate both the revitalization of LMI geographies and economic development within the AA.

Community Development Services

Bank employees have provided a total of 16 hours of financial expertise and technical assistance to organizations that are committed to CD initiatives by providing services to LMI individuals and benefit LMI geographies within the bank's AA.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE SANTA BARBARA ASSESSMENT AREA

CSB operated one branch in its Santa Barbara AA. The branch is located in a moderate-income CT.

Demographic Data

Based on 2000 U.S. Census data, the Santa Barbara AA contains a total of 86 CTs (4 low-, 26 moderate-, 29 middle-, and 27 upper-income). LMI CTs account for approximately 4.6 percent and 30.2 percent, respectively, of the total number of tracts in the AA. The total population of the AA is 399,347. The HUD adjusted MFI for the AA in 2010 is \$70,400.

Economic Data

According to Moody's Analytics, Santa Barbara County has finally exited recession, but the metro area's economy remains fragile. Employment has finally stabilized overall. Job losses have

slowed in construction, and employment has leveled off in manufacturing and retail industries, the three weakest segments of the economy over the past two years. At 9.5 percent in the first quarter, the unemployment rate is still very high, more than 5.0 percentage points above its level in the first quarter of 2007. The abatement in the rate of job loss has allowed credit conditions to firm over the last two quarters; although, first-lien mortgage and credit card delinquency rates remain well above their levels prior to the recession.

Although Santa Barbara County is no longer in recession, there will not be significant improvement in the local job market until late this year. The next few quarters will be difficult for residents, but the metro area's long-term prospects are much brighter. The large concentration of high-tech firms in the area provides an upside risk to the forecast for per capita income. A high proportion of college-educated workers will also attract new firms in a variety of high-tech and biomedical industries. Furthermore, Santa Barbara County's diverse industrial composition will dampen employment volatility. Nonetheless, over the long term, the metro area is expected to be below average in terms of employment growth, primarily because population growth will trail the U.S. average.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE SANTA BARBARA ASSESSMENT AREA

CSB's performance is consistent with the previous AA analysis. CSB participates in the investment and service components of the CD test. Qualified investments totaled \$1.9 million during the review period. With respect to CD services, bank employees actively lend their financial expertise to several CD organizations.

Qualified Investments

CSB was evaluated on its record of meeting the needs of the Santa Barbara AA through the use of qualified investments. During the review period, the bank made 9 investments for \$1.9 million within the Santa Barbara AA, which demonstrates management's long-term commitment to the LMI individuals and geographies within the AA.

Qualified Grants and Donations

CSB has awarded 5 qualified grants in the amount of \$6,500. All of the grants benefited LMI individuals within the AA.

Community Development Lending

CSB has no CD loans within the Santa Barbara AA.

Community Development Services

Bank employees have provided a total of 76 hours of financial expertise and technical assistance to organizations that are committed to CD initiatives by providing services for LMI individuals and LMI geographies in the Santa Barbara AA.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE TULARE ASSESSMENT AREA

CSB operates one branch in its Tulare AA. The branch is located in a moderate-income CT.

Demographic Data

Based on the 2000 U.S. Census data, the Tulare AA contains a total of 76 CTs (0 low-, 25 moderate-, 28 middle-, 22 upper-income, and 1 no income reported). Moderate-income CTs account for approximately 32.9 percent of the total number of tracts in the AA. The total population of the AA is 368,021. The HUD adjusted MFI for the AA in 2010 is \$47,200.

Economic Data

According to Moody's Analytics, Tulare County has finally exited recession, but the metro area's economy remains fragile. Payroll employment is no longer falling, but the unemployment rate was 17.1 percent in March, more than 7.0 percentage points above the national average. Residential construction, although not declining, remains at an extremely low level relative to historical standards, and house prices are still falling. Credit conditions have improved marginally, but delinquency rates on first-lien mortgages, credit cards, and auto loans remain well above their levels prior to the recession. Personal bankruptcies are still rising.

Although the metro area has emerged from recession, the labor market will remain in poor shape, with the unemployment rate staying well above the state and national averages. Tight credit conditions and the weak labor market will weigh on residents. Despite a relatively unskilled labor force and limited industrial diversity, Tulare County will be an average performer in terms of employment growth. However, a limited presence of high-tech industries will weigh on per capita income growth.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE TULARE ASSESSMENT AREA

CSB's performance is consistent with the previous AA analysis. CSB participates in the investment and service components of the CD test. Outstanding investments totaled \$94,875 during the review period. With respect to CD services, bank employees actively lend their financial expertise to several CD organizations.

Qualified Investments

During the review period, the bank made investments totaling \$94,875 within the Tulare AA, which demonstrates management's commitment to the LMI individuals and geographies within

the AA.

Qualified Grants and Donations

CSB has awarded 5 qualified grants in the amount of \$3,106. All of the grants benefited LMI individuals within the AA.

Community Development Lending

CSB has no CD loans within the Tulare AA.

Community Development Services

Bank employees have provided a total of 13 hours of financial expertise and technical assistance to organizations that are committed to CD initiatives by providing services for LMI individuals and LMI geographies in the bank's AA.

DESCRIPTION OF THE INSTITUTION'S OPERATIONS IN THE KINGS ASSESSMENT AREA

CSB operates one branch in its Kings AA. The branch is located in a moderate-income CT.

Demographic Data

Based on 2000 U.S. Census data, the Kings AA contains a total of 26 CTs (0 low-, 7 moderate-, 10 middle-, 7 upper-income, and 2 no income reported). Moderate-income CTs account for approximately 26.9 percent of the total number of tracts in the AA. The total population of the AA is 129,461. The HUD adjusted MFI for the AA in 2009 is \$51,700.

Economic Data

According to Moody's Analytics, the worst is over for the Kings County economy; however, pitfalls remain on its road to recovery. The relatively quick rebound in manufacturing employment has helped the metro area to begin its recovery earlier than the nation. Consumer driven industries, such as retail trade, remain laggards as the local economy grapples with still-falling house prices and worsening household credit conditions. Also, the metro area's dominant state-run prison facilities have fallen victim to state cutbacks and are shedding jobs, which has reversed last year's gains. Kings County's dependence on agriculture results in a structurally high unemployment rate; but, at nearly 17 percent, it has risen more quickly than the state or national averages over the past 6 months.

Kings County's economy is resilient and the labor market is picking up. Job creation will be of a low value-added nature, however, and income growth will remain weak. Falling house prices will further intensify the negative wealth effect cutting into consumer spending.

CONCLUSIONS WITH RESPECT TO PERFORMANCE IN THE KINGS ASSESSMENT AREA

CSB's performance is consistent with the previous AA analysis. CSB participates in the investment and service components of the CD test. Qualified donations totaled \$3,350 during the review period. With respect to CD services, bank employees actively lend their financial expertise to several CD organizations.

Qualified Investments

Qualified Grants and Donations

CSB has awarded 6 qualified grants in the amount of \$3,350. All of the grants benefited LMI individuals within the AA.

Community Development Lending

CSB has no CD loans within the Kings AA.

Community Development Services

Bank employees have provided a total of 17 hours of financial expertise and technical assistance to organizations that are committed to CD initiatives by providing services for LMI individuals and LMI geographies within the bank's AA.

APPENDIX A

SCOPE OF EXAMINATION

The scope of the evaluation included all CD activities in which the institution participated in since the bank's inception on July 25, 2008. All CD loans, investments, and services funded or supported by CSB from July 25, 2008, through June 30, 2010, were reviewed. The FDIC approved the institution's request to have a wholesale bank designation for CRA purposes on June 17, 2008; therefore, wholesale bank examination procedures were used.

SCOPE OF EXAMINATION		
TIME PERIOD REVIEWED	July 25, 2008 to June 30, 2010	
FINANCIAL INSTITUTION		PRODUCTS REVIEWED
CapitalSource Bank		CD Loans CD Investments CD Services
AFFILIATE	AFFILIATE RELATIONSHIP	PRODUCTS REVIEWED
None		

LIST OF ASSESSMENT AREAS AND TYPE OF EXAMINATION			
ASSESSMENT AREA	TYPE OF EXAMINATION	BRANCHES VISITED	OTHER INFORMATION
California – Los Angeles AA	On – site	1- Brea	N/A
California – Fresno AA	Off - site	None	N/A
California – Kern AA	Off – site	None	N/A
California – Tulare AA	Off - site	None	N/A
California – Kings AA	Off – site	None	N/A
California – Santa Barbara AA	Off - site	None	N/A

APPENDIX B – WHOLESALE BANK PERFORMANCE CRITERIA

The FDIC evaluates the community development performance of a wholesale bank pursuant to the following criteria:

- (1) the number and amount of community development loans (including originations and purchases of loans and other community development loan data provided by the bank, such as data on loans outstanding, commitments, and letters of credit), qualified investments, or community development services;
- (2) the use of innovative or complex community development loans, qualified investments, or community development services and the extent to which the investments are not routinely provided by private investors; and
- (3) the bank's responsiveness to credit and community development needs.

APPENDIX C - DEFINITIONS

Community development services: A service that has its primary purpose as community development. These services must be related to the provision of financial services that benefit the bank's assessment area.

Qualified investment: "A lawful investment, deposit, membership share, or grant that has as its primary purpose community development." These services can be for the support of the following endeavors: (1) affordable housing, (2) community services targeting, (3) activities that promote economic development by financing small farms and small businesses, and (4) activities that revitalize or stabilize LMI areas.

Census tract: A small subdivision of metropolitan and other densely populated counties. Census tract boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending upon population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Low-income: Individual income that is less than 50 percent of the area median income, or a median family income that is less than 50 percent, in the case of a geography.

Metropolitan area (MA): A metropolitan statistical area (MSA) or a metropolitan division (MD) as defined by the Office of Management and Budget. A MSA is a core area containing at least one urbanized area of 50,000 or more inhabitants, together with adjacent communities having a high degree of economic and social integration with that core. A MD is a division of a MSA based on specific criteria including commuting patterns. Only a MSA that has a population of at least 2.5 million may be divided into MDs.

Middle-income: Individual income that is at least 80 percent and less than 120 percent of the area median income, or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate-income: Individual income that is at least 50 percent and less than 80 percent of the area median income, or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Upper-income: Individual income that is more than 120 percent of the area median income, or a median family income that is more than 120 percent, in the case of a geography.

